

India has been able to drive innovation when it comes to software services in the telecom space, but the results have not been so encouraging when it comes to developing telecom equipment. {K2Splitter}

India has been able to drive innovation when it comes to software services in the telecom space, but the results have not been so encouraging when it comes to developing telecom equipment. To become a major player in the global telecom space, India has to create a synergetic telecom ecosystem and build globally competitive product companies across the telecom value chain. Despite growth in the number of subscribers, the ecosystem has so far failed to adequately spur the manufacturing segment. As a result, the domestic telecom equipment manufacturing segment has not been able to meet the demand created by other segments of the telecom ecosystem, thereby forcing operators to import most of the equipment required for their networks.

In an effort to promote telecom equipment production in the country, the Telecom Regulatory Authority of India (TRAI) has issued a consultation paper seeking comments from the stakeholders to find ways to promote R&D in the field. The following are excerpts from the paper, "Encouraging Telecom Equipment Manufacturing in India"...

Current status

The Department of Telecommunications' (DoT) data shows that the production of telecom equipment in India at the end of March 2009 stood at Rs 518 billion, with a compound annual growth rate (CAGR) of 29 per cent in the previous five years. Compared to this, Chinese equipment maker Huawei alone reported a revenue of Rs 823.5 billion in 2008, up from Rs 576 billion in the previous year. The equipment production was of the order of Rs 510 billion in 2009-10 and is projected to reach Rs 535 billion in 2010-11. India exported equipment worth Rs 135 billion in 2009-10 as against Rs 18.98 billion in 2006-07, an increase of 600 per cent, underlining the growth potential of the sector.

As per DoT estimates, telecom equipment worth Rs 3,500 billion to Rs 5,000 billion will be required by 2015. Massive growth in the number of subscribers will necessitate the upgradation of networks, and induction of new technologies and services. This will create a huge demand for switching, transmission and subscriber equipment. It is estimated that for 3G alone, the

investment would be of the order of \$15 billion. Demand for the network elements would translate into a requirement for components, tests and auxiliary equipment. The overall requirement is expected to be of the order of \$100 billion.

Issues raised for consultation

The paper discusses the status and challenges raised by the stakeholders during the pre-consultation process and the suggested measures relating to the following:

R&D: The importance of domestic R&D and the consequent creation of intellectual property cannot be over-emphasised. It is widely accepted that over 85 per cent of the value is created by the organisation that does the R&D, designs the product and owns the IPR and the brand. While most developed countries today spend 2 per cent or more of their gross domestic product on R&D, India spends only 0.8 per cent.

Sourcing of inputs: Non-availability of indigenous components is a major constraint facing the manufacturing industry. Although Indian production facilities in the telecom sector have fostered the growth of many local partners and suppliers for electrical and electromechanical components, not all components can be sourced locally. Most of the critical components like integrated circuits (ICs), application-specific ICs and other sophisticated sub-assemblies are all imported.

Manufacture of equipment and subscriber terminals: The domestic equipment manufacturing base for foreign telecom products has grown during the past few years. However, growth in this sector is not as significant as that in the telecom service sector. More importantly, it has not resulted in significant value creation in India, since all the IPR and technology for such manufacturing and products is owned by foreign companies. The equipment production of “Indian products” is negligible and whatever manufacturing took place in India consisted of only low value-adding assembly/soldering activities.

Access to markets: Indian product companies, being late starters, have been unable to achieve economies of scale in the fast growing domestic market because of the dominance of imported products. There have been demands of preferred domestic market access so that they can get the volumes necessary to make them price competitive against global players.

Some of the questions raised by TRAI for consultation are:

- What are the components that can be manufactured in the country with due consideration to commercial viability?
- What should be the degree of indigenous manufacture of components that we can achieve in a time frame of 5 and 10 years?
- Is the duty currently being levied on components high? If so, on what components can the duty be reduced? What are the financial implications?
- Should the concept of mandatory use of Indian products/manufactured products be introduced in the Indian context?
- Should a percentage of the Indian market be reserved for domestic manufacturers? If so, what should the percentage be?
- What should be the objective and focus of the R&D efforts by 2020?
 - What should be the role of the government and the industry with regard to the R&D effort? What should be the investment, if any, by the government?

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